



AFRICAN DEVELOPMENT
BANK GROUP

New financing for resources recovery to reduce the
wastewater crisis

Using investment guarantees to attract private sector financing

Stockholm World Water Week
August 2017

Bringing additional financing to reuse and recovery through the private sector requires guarantees

The Opportunity for Developing Countries

- ❑ The private sector can bring new funding to RRR, but the potential remains largely untapped due to the socio-political and public nature of waste.
- ❑ The private sector is interested, but beneficiaries' affordability or willingness to pay constraints makes it difficult to balance the risk and reward of investments.

How can guarantees help?

- ❑ Guarantees are products designed to mitigate risks faced primarily by private players, and are used to help make investments feasible.
- ❑ Extensively used in sectors like energy, and transport, yet rarely used in water and waste.

Understanding the risks affecting investment decision making in developing countries



There are numerous risk mitigation instruments available for investment projects

- Partial Credit Guarantee
- Partial Risk Guarantee
- Political risk insurance
- Policy-based Guarantees
- Appropriate adjustment clauses in contracts/agreements
- Credit enhancement through reserve funds
- Viability gap funding & Blended finance
- Escrow accounts or lockbox techniques
- Ring fencing of financial viable projects
- Providing collateral by ceding assets
- Hedging instruments
- Standard commercial risk mitigation like contractors all risk and business interruption

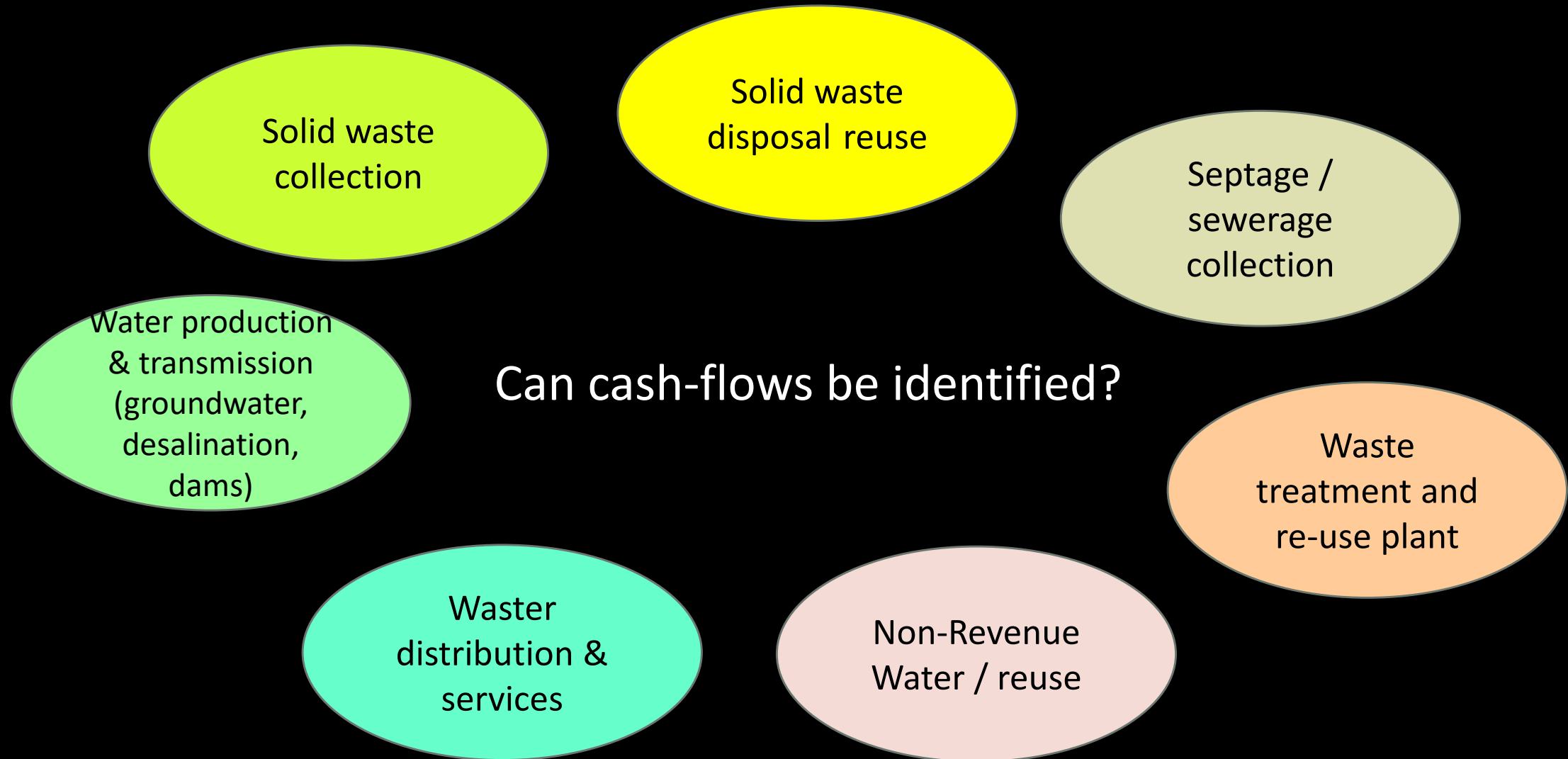


Guarantee providers:

- Berne Union Members
- Bilateral insurers (Sinosure)
- MDBs (MIGA, AfDB)
- DFIs (US DCA)

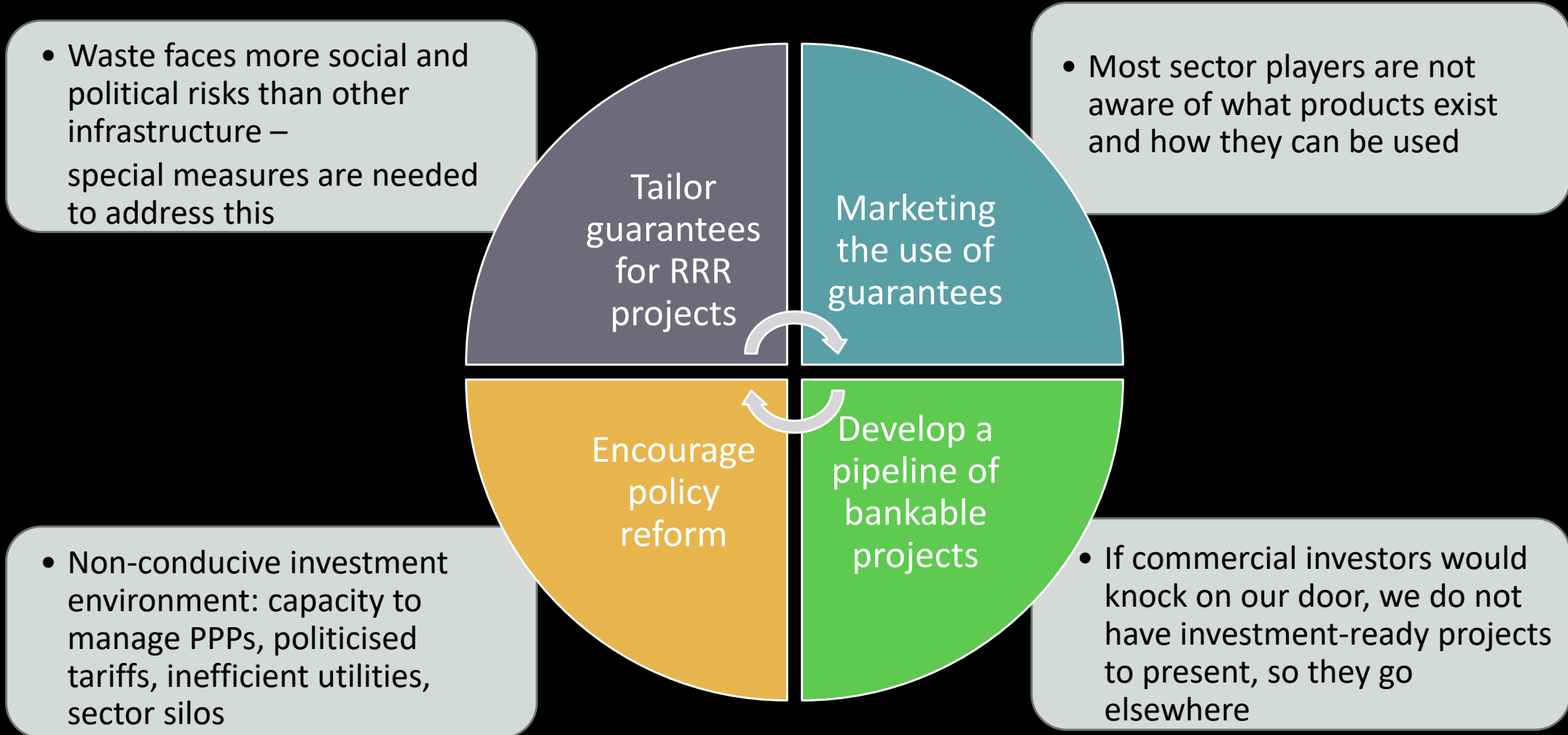


Most Water & Sanitation, and especially RRR projects are suitable to use guarantees





A multi-pronged approach to address the bottlenecks and engage the private sector



Tailoring existing guarantees to mitigate risks faced by RRR investors

Partial Risk Guarantees

Cover default resulting from the non-performance of specified contractual obligations by governments or their agents

- regardless of the underlying reasons

Specific Water & Waste Risk:
Non-creditworthy service providers

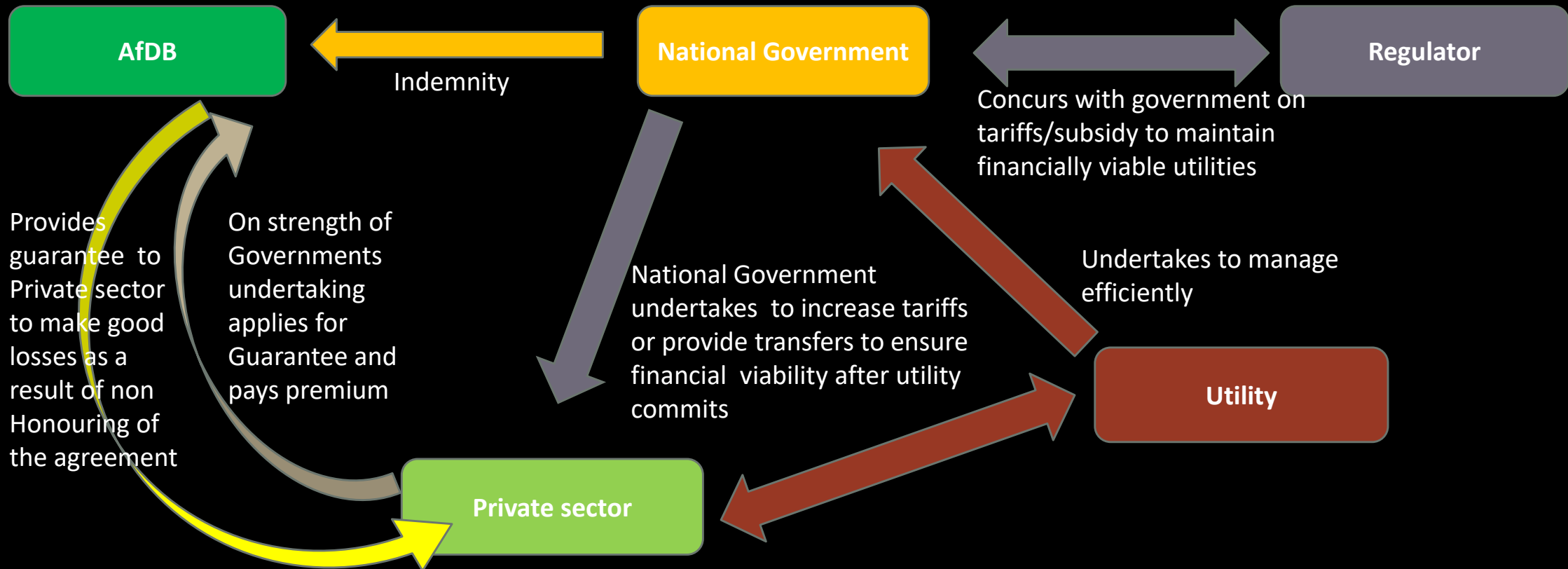
Solution:
The 'Creditworthiness guarantee'

Tailor the existing PRG to guarantee

losses resulting from government unwillingness to maintain adequate tariffs, and/or provide subsidies to ensure long-term, sustainable creditworthiness.



Structure of the Creditworthiness Guarantee

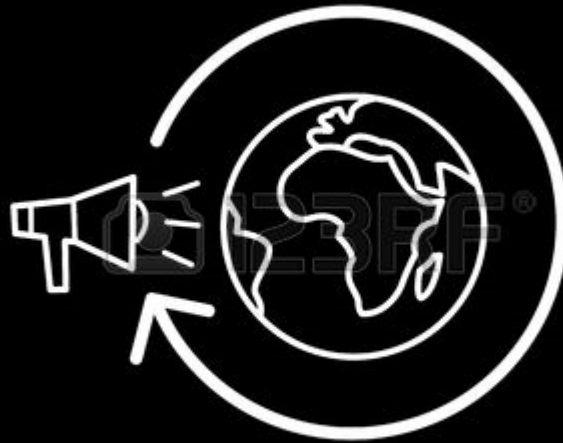


Promoting the use of guarantees

- The **public** sector is unfamiliar with risk mitigation measures available for RRR investments
- The **private investors** are not always aware of RRR opportunities
- The **private service providers** often need help to make opportunities viable

Marketing initiative

- Investment promotion platform
- Matchmaker between project owners and financiers
- Africa-wide creditworthiness index



Brokerage Function

- Insurance/ brokerage function to be developed with the private sector
- Advising clients of the right guarantee and risks covered
- A middleman between the guarantor and guarantee to conclude the transaction on their behalf

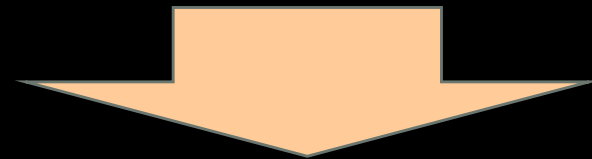
Expected Results of the proposed approach

For governments:

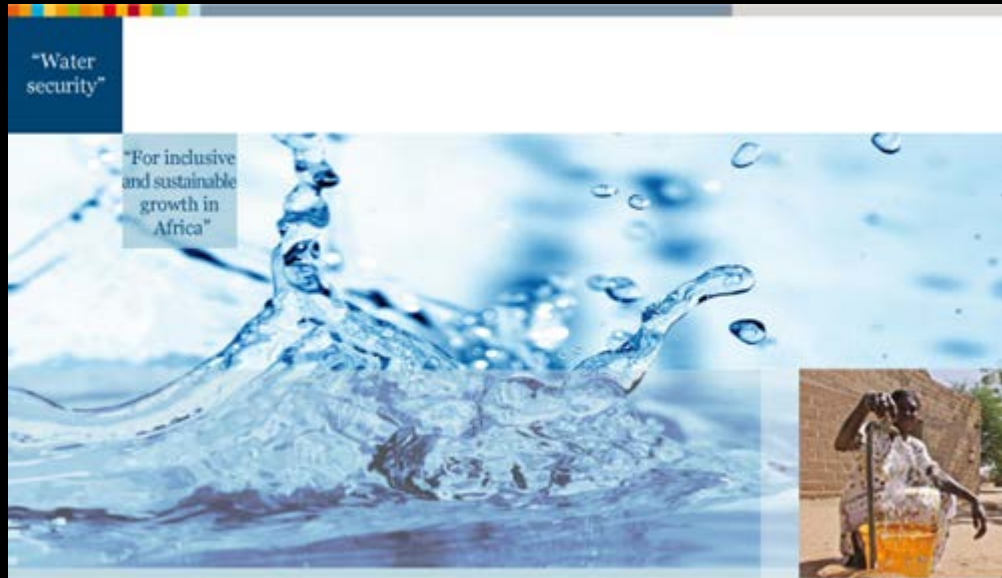
- Improved quality of projects prepared
- Accelerated provision of infrastructure
- Increased sustainability of service provision at a reasonable cost

For the private sector:

- Increased business opportunities as a result of reduced risk and protection against losses
- Facilitated access to international and domestic capital markets



- Guarantees may support bankable projects in Africa of **US\$ 250 million - US\$ 6 billion** annually - 10-year timeframe
- A large portion of this will be for RRR



Thank You!

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